



# SwissCham Southern Africa – South Africa Chapter (SCSA-SAC)

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## Event Review

### SwissCham – Luncheon

12<sup>th</sup> of November 2010, held at  
The Westcliff in Johannesburg

**Speaker: Mr. Jacko Maree**  
CEO, Standard Bank SA

**Jacko Maree**, CEO of Standard Bank Group delivered the keynote address at the SwissCham luncheon, recently held at The Westcliff in Johannesburg.



Mr. Jacko Maree, CEO of the Standard Bank Group

SwissCham President Dr. Jürg A. Schalch welcomed some 45 guests who had come to hear Jacko Maree's message on the topic: ***"The Standard Bank Story"***.

A special welcome the President extended to the Ambassador of Switzerland Mr. Rudolf Bärffuss.



Mr. Jürg A. Schalch, SwissCham President

It was in May 2000 when the Economist carried a cover with a child soldier carrying a missile launcher superimposed on a map of Africa with the title “Africa, the hopeless continent”. Ten years later the picture is dramatically different. In June this year the same magazine asked the question, will a new pride of economic lions take their place beside the Chinese Dragon and the Indian Tiger? It concluded that progress had been remarkably hopeful, Jacko Maree said, opening his address.

Africa has been growing at around 5% per annum for the last decade, which is not as exciting as Asia and Parts of Latin America, but is nevertheless much better than the developed economies. We see this trend continuing for the next decade. This is driven by 2 main factors, the improving governance of many countries, admittedly off a very low base, and the demand for commodities and food. In the mid nineties only one third of African countries were deemed to be reasonably free. Today, the same agency applying the same measures, regards two thirds of Africa’s countries to be reasonably free. Africa’s population is around 1 billion. By 2050 it will double. Whereas in 1950 there were two Europeans for every African, by 2050 the opposite will be true.



The growth in trade between Africa and the BRIC countries has been exponential. Increasingly it is not merely trade but also foreign direct investment which is coming from Africa’s non traditional partners. While China’s role is well known, Indian businesses are expanding across the continent, and to a lesser extent Russian companies.

Brazilian companies are also on the move. Roger Agnelli, the CEO of Vale, the world’s biggest iron ore producer, was quoted as follows in an FT interview:

“Africa is the largest deposit of untouched natural resources on the planet. If we analyse some individual countries we see they are doing well or have been growing at more than 10% per year. Democracy is established in some very important countries there. And investors from Brazil, India, China and Japan are all going to Africa. I feel that Africa is going to be a completely different continent in say 10 years.”



The obvious sectors are natural resources, infrastructure, agriculture and telecoms, but although the rise in the middle class is still in its infancy, consumer spending patterns are changing. This explains why Walmart has recently made a move to acquire Massmart, South Africa’s third biggest retailer with a good continental footprint. The price tag is around \$5 billion. Financial services are also attracting attention. HSBSC recently went well down the road of acquiring Nedbank, South Africa’s 4<sup>th</sup> largest bank at a cost of some \$8 billion before it finally withdrew. It wasn’t clear how this deal would give them a foothold anywhere other than in South Africa, but it nevertheless highlighted the fact that they see Africa as a critical gap in their global franchise

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John Varley, the outgoing head of Barclays said the following in the FT last week.

“If you look at the growth rates in African GDP, they are high by the standards of the world. I like that option on the future – that’s a very good thing for us to have developed”.

The article concludes:

The message for Mr Diamond, as he takes the baton from Mr Varley, is clear – if there is one growth opportunity the new chief executive must get right, it is Barclay's strategy in Africa.



Our home base, South Africa, is the gateway to Africa. It is a country of many contradictions. It is the most sophisticated economy on the continent. The WEF in its global rankings ranked SA 6<sup>th</sup> in the world in terms of soundness of banks and 7<sup>th</sup> for availability of financial services.

We have successfully hosted the cricket, rugby and football World Cups without incident. On the other hand we have an education system in poorer areas which is pitiful. AIDS has decimated large sections of the population. We have had a huge influx of Zimbabweans fleeing their country. And yet the economy is likely to grow consistently by around 3-4% in the coming years.

So how do we think about this? Until 1987 we were part of Standard Chartered when we were sold, partly because of the political problems at the time, becoming a purely South African bank. The problem was that we were already a bank with a market share of 20% plus and South Africa constitutes only 0.5% of the world's GDP. So we were a big fish in a small pond. Significant growth could only come from expansion outside our borders.

Today Africa might be flavour of the month but at that time it was unusual. White SA businessmen were not particularly welcome in many countries on the continent. Most South African businesses that went abroad tried to compete in the US, Europe and Australia, with very mixed results. We bought a small African network from ANZ Grindlays and slowly started growing from there.

At the time SA also had strict exchange controls which meant that we had to build a hard currency balance sheet to finance cross border business – you could not do this off the home balance sheet. So we started a small bank here in London in the early 1990's. It soon became clear that we had no competitive advantages in the UK market and our focus turned to countries that, like South Africa at the time, were struggling to raise finance and where there were opportunities for complex structured trade financing where we could compete. It also took us into the world of mining and commodities and countries like Russia, Brazil and China.

There have been many sceptics. We were even the subject of a hostile takeover bid from one of our domestic competitors which, thankfully, we survived – Incidentally, I can confirm that surviving a hostile bid really focuses the minds of all concerned, from sweeper to board member and creates a unity of purpose which is hard to replicate.

Regularly asked about our role model – unfortunately we couldn't find an emerging market based bank that had managed to expand significantly beyond its home base.



The best we could come up with was a company in another industry, beer! SAB grew north into Africa and had been successful in Eastern Europe and other emerging markets, including China, before buying Miller in the US to become one of the biggest brewers in the world. Of course the difference between the industries is vast but we often share experiences with SAB and find that there are many commonalities.

Something particularly important as we expand internationally, is to be seen to be local wherever possible.

Especially when you are banking in poor countries, you have to be seen to be relevant to the society in which you operate. There are very few places where lecturing and trying to teach the locals, goes down well – you need to be more subtle than that. So one of the competitive advantages we have is coming from a developing country ourselves.



We are also great believers in having local partners in difficult places. As an extreme we operate in Russia with a 36% minority but strategic shareholding – something which would go against the grain in most big multinationals. Obviously this only works if you can find partners you trust.

Nigeria is a case in point. For us it is a strategic country with more than 150m people and vast natural resources. So much so that we believe our bank there will one day be bigger than our South African business. We had been operating there since the early 90's but in recent times wanted to grow our business. We understood the country and the only thing that mattered was to find a bank to buy where we could be certain of the integrity of the people. We did due diligence exercises on many banks and walked away from many deals

which appeared attractive. Finally we found what we were looking for and we have not been disappointed. The founder remains the chairman and is still a major shareholder and highly respected.

This brings me on to our deal with the Industrial and Commercial Bank of China, a bank with 220m customers, 16 000 branches and 385 000 employees. The Beijing branch is bigger than Standard Bank.

Having given a presentation on Africa at one of the opening sessions at the annual meeting of the African Development Bank in early 2007, in Shanghai, I was swamped by meeting requests. It soon became crystal clear that all the major Chinese state controlled companies had been given an instruction from on high to develop an Africa strategy and they were all looking for partners and advisers.

As luck would have it, in June of that year we were hosting the annual meeting of the International Monetary Conference in Cape Town, a 4 day gathering of the CEOs and chairmen of the 70 or so biggest banks in the world. I hasten to add that we didn't qualify on this measure at the time, but they needed one African representative and we were it! Incidentally, I flipped through the list of attendees of that 2007 meeting recently and I think there are only 10 or so survivors – the rest have gone. ICBC was the only Chinese bank included at the time and the chairman, who I had met a number of times before, attended.



We arranged for him to come a day early and spent a few hours outlining our strategy. By the end of the meeting we had agreed to formalize a cooperation agreement – they liked the idea of biggest bank in China teaming up with the biggest bank in Africa irrespective of our insignificant size.

One thing led to another and soon they enquired about cementing the strategic cooperation with a 20% shareholding. They offered a fair premium and agreed not to increase their shareholding beyond 20% without our board's prior consent. They asked for 2 board seats out of 16. Full terms of the deal were announced in October and completely surprised the market with no leaks. This, despite literally hundreds of people in ICBC and government in China knowing about the deal for weeks in advance.

The consideration of \$5.5billion was the biggest foreign investment by any Chinese company anywhere in the world – a remarkable statistic indicating how seriously China views Africa and other emerging markets.

We have found ICBC to be committed and absolutely straightforward partners. They are referring all their Chinese clients who are doing business in Africa to us. I will always remember some extremely sound advice about doing business with Chinese people – never try to make money out of them, make money with them. Perhaps it is sound advice for any partnership.

I have learned that a week is a long time in banking as it is in politics. Standard Bank may have survived well through the crisis but we are also retrenching and cutting our cloth as we speak.

Concluding, Maree said, that he hoped to have shared some of his passion and knowledge of Africa with us today.



Daniela Maurer for  
SwissCham Southern Africa-  
South Africa Chapter